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- Using TA and 3-minute charts with Level 2: the big picture

### 🔴 Main Points:

- Level 2 is critical for successfully timing precise trade entries and exits, and for following the ax for stocks that have an identifiable 'ax'.
- I have found that using a combination of level 2, 1-minute bar/close line and 5-day 13-minute charts gives me an effective edge in daytrading. As we've learned, you should take a "funnel" approach to daytrading, paying attention to the overall market/sector direction first, followed by the individual stock's intraday price action and technical indicators, saving level 2 for last to get your "within 3-minute" timing down for when exactly to fire off a buy/sell.
- This lesson will focus on how to use the powerful combination of multiple indicators to assist you in making your trade decisions. Note that for Scalping (under 3-10 minute roundtrips) the Level 2, especially T&S, becomes more important than the charts are; charts are important to determine breakouts and bottom bounces for daytrades that last from 10 minutes to an hour (or even longer). Remember that L2 alone is not sufficient (eg it's particularly useless for the most actives like WCOM, MSFT and INTC).
- New daytraders are advised to maintain positions for from 5 minutes to 2 hours max; intermediate/advanced daytraders should trade from 10 second - 20 minute roundtrip trades. Trade traders that are becoming daytraders are advised to start with overnight holds that are sold premarket or within the first 15-30 minutes of market open. This will help you tighten your trading range down to a faster style. Notice that many profitable opportunities can be had with overnight holds that are sold into the premarket gap up using level 2; the key is to sell on ISLD if it's within a spread or two of the best bid, but hold off for the actual open to sell if Level 2 shows ISLD 3 or more spreads away from the best bid, since you can sell to one of the mmm's at their bid if they don't drop it immediately on open.

### Examples:

## The DTU "Triple Play" Daytrading L2 Setup:

**Level 2/T&S**

## 1-minute Intraday

**13-minute  
5 Day**

- And even then, I wouldn't be too sure about this particular stock continuing up...I'd wait and see what SBSH does. **Note that it's come up to half of its' trading range on the 1-minute chart, so don't buy when a stock is here. NEVER buy a stock that's bounced off the bottom and has come back up to half the range**, the play is probably over and it will just chop around here for awhile. Wait for either a bounce off the bottom again (2nd bottom), a breakthrough (above the day's high), or a breakdown to short (below the previous bottom.). Learn this.

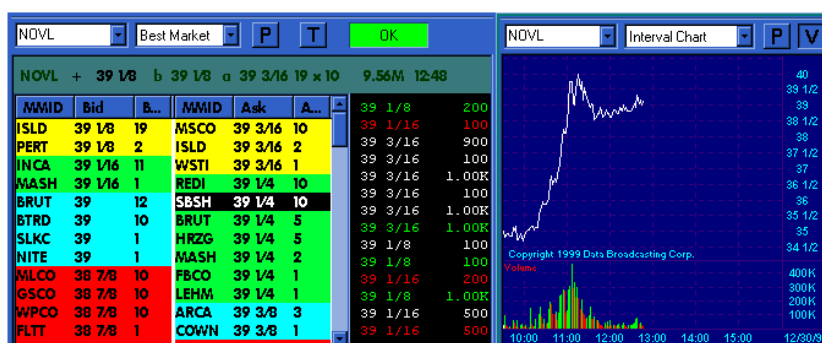
**Consider setting up a similar "triple play" for your stocks;** of the three parts the 5-day chart is the most "optional" part of it, as long as you know where the stocks' coming from and have made a note of the support/resistance levels you may leave this one out of the equation, if screen space is limited.

At a minimum, make sure you have this type of setup available to daytrade with: a level 2 window, time & sales, and a 1-minute intraday chart. The 5-day is used to help determine how strong the likelihood is of a bounce or a breakout, the 1-day chart doesn't give the perspective that I like to have.

For example, NOVL ran up from 20ish to 40 in a matter of days; it was a prime short candidate right here (Why? Making a lower high on lower volume after running up 5 points, plus SBSH, the usual ax on NOVL, is a seller, and there's a "wall of sellers" on the L2 ask. Good for 2 1/2 points in 40 minutes.

I wouldn't have known that if I didn't also have the 5-day chart available, if for instance NOVL had just dropped on bad earnings from 62 to 35 on the open then I would not be nearly as likely to short it. The 5-day perspective has been consistently profitable for me.

Knowing where your stock is coming from gives you a pretty good indicator of where it is likely to head over the next couple of days, in addition to intraday scalping and swing trades. This edge will help. It also helps you to set your stops; as I say I recommend 2-3 spread stops in general, at a maximum you would use decade support/resistance and 5-day support/resistance levels to help you with your trades.



**A Final Reminder:** Use Level 2 in conjunction with a "market snapshot" to help you nail your pivot points and trades effectively. Below (again) is a "market snapshot" I use to keep an eye on the direction of the overall market.

**I do not fight the market - the market is always right.** I don't care What Level 2 says, if the market is overall tanking I will not go long a stock, unless there is breaking news (almost never). If the market is "indeterminate" than I will not enter a trade. I enter if the market is ok, and the stock is making a pattern I recognize as a "high-potential" daytrade, as we have seen in the earlier lessons on bullish/bearish chart patterns.

Ok traders, lets take a look what are these indicators telling us?

Lunchtime is about over, overall trend of the market is down, we're under the opening, fairly choppy.

The bounce seems to be moderately strong here, as the composite trend has reversed above the previous high at around 4066.

### Pop Quiz:

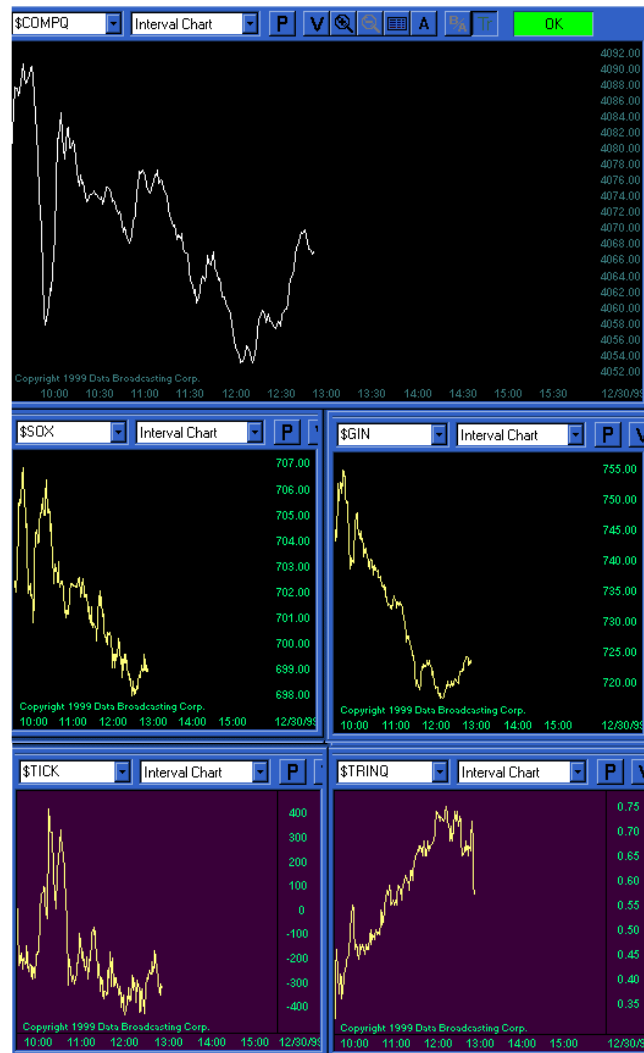
#1) Do you trade semis (\$SOX) or nets (\$GIN), based on their composite charts to the right? (answer: semis are stronger overall, because when they bounced in the morning at 10am they bounced higher than the nets did.)

#2) What does the last 5 minutes of the \$TRINQ chart at the right tell you?

a) it's bearish for stocks, stocks are dropping

b) it's bullish for stocks, stocks are rising

(answer: the \$TRINQ is an inverse indicator, I'd be ready to buy stocks since a drop in the \$TRINQ like this is b) a bullish indicator)



Answer to using 13-minute charts: Knowing that the majority of new traders use 15-minute charts, I can get a 2-minute head start on the competition to see subtle changes in pivots, reversals and breakouts faster by moving to a 13-minute chart.